

FY 2000 ANNUAL REPORT

OVERVIEW AND ANALYSIS

SECTION I



OVERVIEW AND ANALYSIS

INTRODUCTION

The U.S. Environmental Protection Agency (EPA) leads the nation's efforts to safeguard the natural environment and protect human health. The Agency is committed to ensuring that the American public has air that is safe to breathe, water that is clean and safe to drink, food that is free from dangerous pesticide residues, and communities that are protected from toxic chemicals. To accomplish this mission EPA set ten long-term strategic goals that identify the environmental outcomes or results the Agency is working to attain and the sound financial and management practices it intends to employ. Each year, as required under the Government Performance and Results Act (GPRA), EPA prepares an annual plan that translates the Agency's long-term goals and objectives into specific actions to be conducted and resources to be allocated for the fiscal year. EPA is accountable to the American public for achieving these annual performance goals for the protection of the environment and human health and for using taxpayers' dollars efficiently and effectively to do so.

A central purpose of GPRA is to gain better results from government programs by requiring federal agencies to define their performance goals and holding them accountable for achieving these goals. Successfully managing for results depends, in part, on strong links between annual and longer-term planning, budgeting, financial accounting, and performance results. EPA has gone farther than most other federal agencies in structuring its 1997 and 2000 revised Strategic Plans to reflect the full scope of the Agency's resources and workforce and in restructuring its budget to mirror its strategic goals and objectives. Under this approach EPA's strategic goals include both environmentally oriented goals, such as Clean Air and Safe Water, and functional goals, such as Sound Science and Effective Management, that are critical to the achievement of these environmental and human health outcomes.

In a further step to promote accountability, this report includes the Agency's audited financial statements, an independently reviewed accounting of expenditures to demonstrate that EPA has sound financial management practices in place. These financial reports provide not only the assurance that EPA is managing its resources soundly and efficiently, but also

information needed to ensure that EPA uses its resources strategically and effectively to achieve environmental goals.

Linking planning, budgeting, financial accounting, and performance assessment helps EPA focus resource allocation decisions on the environmental and human health results to be achieved, provides longer-term perspective and continuity for budgeting, and reinforces the importance of financial stewardship and fiscal integrity in achieving the Agency's mission. As a result EPA can demonstrate to Congress and the public how taxpayers' dollars are applied across the Agency's strategic goals and how they support the achievement of results.

EPA's *Fiscal Year 2000 Annual Report* serves several purposes. First it describes the progress that EPA, working with its federal, state, tribal, and local government partners, made toward the annual performance goals established in the Agency's Fiscal Year (FY) 2000 Annual Plan. Next it presents major management accomplishments and challenges EPA faced during the year and discusses Agency approaches and solutions. Finally it summarizes EPA's financial activities and achievements. As a whole the *Annual Report* provides an opportunity for the Agency to review its performance, highlight particularly noteworthy accomplishments, examine causes for missed goals or targets, and, most importantly, reflect on how EPA's experience in FY 2000 can shape efforts to achieve the Agency's strategic goals and objectives in the coming years.

This "Overview and Analysis" (which addresses requirements for a "Management's Discussion and Analysis" of the audited financial statements component of the *Fiscal Year 2000 Annual Report*)¹ is intended to provide a "big picture" view of EPA's performance and fiscal accountability over the year. In particular it describes the results achieved under the Agency's goals and objectives, reviews EPA's financial accomplishments, and summarizes actions EPA has taken or plans to take to address management problems. In addition it discusses significant factors that might

¹ Because the *Fiscal Year 2000 Annual Report* consolidates a number of specific reports, several components of the "Management's Discussion and Analysis" are presented in greater detail elsewhere in this report. In particular EPA's mission statement and long-range goals appear at the front of the report, and an EPA organization chart is included as Appendix A. For a discussion of the Agency's performance goals, objectives, and results, see Section II. Management accomplishments and challenges are discussed in Section III. Financial statements, along with a discussion of systems, controls, and legal compliance, are presented in Section IV.

affect future Agency operations. This section is supplemented and supported by the more comprehensive, detailed information provided in the remaining sections of the *Fiscal Year 2000 Annual Report*.

FY 2000 RESULTS

Summary of Performance Results

During FY 2000 EPA and its partners made significant contributions to the establishment of a cleaner, healthier environment. As illustrated by the performance highlights that follow, in FY 2000 at least 91 percent of the American public served by community water systems received water meeting all health-based drinking water standards in effect since 1994. More of the American public breathed cleaner air, the result of significant reductions in harmful air pollutants. Food was safer, due to reduced use of high-risk pesticides and registration of reduced-risk pesticide ingredients. Completed construction at Superfund sites and cleanup and redevelopment of brownfields sites resulted in cleaner, safer, and healthier communities.

In FY 2000 EPA met 80 percent (51) of the 64 annual performance goals (APGs) for which data are provided in this report.² EPA also made significant progress toward the 13 APGs that were not achieved in FY 2000, and for these APGs the Agency is on track to meet its long-term goals and objectives.

During FY 2000 new performance data also became available for several of the 13 FY 1999 APGs for which there were delayed reporting cycles or targets set beyond FY 1999. For example, an additional 1.3 million people are living in residences with healthier indoor air. EPA also exceeded, by over 20 percent, its goal of documenting that controls are in place at hazardous waste facilities, helping to ensure that communities are protected from harmful pollutants. In summary EPA can now report achievement of 81 percent (50) of the 62 APGs for which the Agency has FY 1999 performance data. Delays in reporting cycles and targets set beyond FY 1999 continue to affect seven FY 1999 APGs.

Tables presenting EPA's detailed FY 2000 APG results are included in Section II at the end of each goal chapter. EPA continues to improve its performance

measurement capabilities and will modify some APGs in FY 2001 and FY 2002 to reflect more outcome-oriented measures and better performance data.

Highlights of FY 2000 Performance

EPA's FY 2000 accomplishments reflect a variety of activities and initiatives. They represent progress made toward achieving the Agency's strategic goals; accomplishments that cut across individual goals, programs, or media; and achievements in financial management.

Accomplishments Under Strategic Goals

- EPA issued a final rule for passenger vehicles (including sport utility vehicles) that will significantly reduce emissions of nitrogen oxides (NO_x), a primary contributor to urban smog, by nearly 3 million tons per year by 2030. (Goal 1)
- EPA issued three final Maximum Achievable Control Technology (MACT) standards and proposed eight new standards that, when fully implemented, will reduce hazardous air emissions by an estimated 62,000 tons each year. Combined, all the MACT standards issued to date will reduce emissions by more than 1.5 million tons each year. (Goal 1)
- Phase II of the Acid Rain Program, which began in 2000, now requires reductions in sulfur dioxide (SO₂) emissions from more than 2,500 electric utility units (gas-fired, oil-fired, and coal-fired) and reductions in year-round NO_x emissions from approximately 750 coal-fired units. (Goal 1)
- Ninety-one percent of the population served by community drinking water systems received drinking water meeting all health-based standards that were in effect as of 1994, up from 83 percent since that time. (Goal 2)
- For the first time approximately 253 million Americans have access to annual consumer confidence reports on the quality and safety of their drinking water, as a result of the new Consumer Confidence Report rule. More than 100 million Americans are able to read their water quality reports online. (Goal 2)
- Implementation of Clean Water Action Plan activities resulted in the environmental improvement projects now under way in 324 high-priority watersheds. (Goal 2)
- Another two million people received the benefits of secondary treatment of wastewater in 2000,

²EPA committed to a total of 73 APGs in its FY 2000 Annual Plan. Data for eight of these APGs will not be available until FY 2001 and beyond, and one APG has a target year that falls beyond FY 2000.

bringing the total number of people served by secondary wastewater treatment facilities to 181 million and achieving secondary treatment or better for nearly all of the population served by publicly owned treatment works. (Goal 2)

- EPA registered 16 reduced-risk pesticide active ingredients and reviewed 1,838 new chemical pre-manufacture notices for hazards to human health and the environment. (Goals 3 and 4)
- EPA reassessed 121 pesticide tolerances to ensure they met the Food Quality Protection Act-mandated standard of a “reasonable certainty of no harm.” (Goal 3)
- EPA implemented various risk-reduction steps such as restricting use, lowering or revoking tolerance levels, and phasing out or canceling certain uses for the pesticides azinphos methyl, methyl parathion, and chlorpyrifos. (Goal 3)
- Four hundred sixty-nine companies have committed to make screening-level hazard data on approximately 2,155 chemicals available by 2005. (Goal 4)
- Since the Superfund program began, EPA has completed construction at 757 private and federally owned sites to protect human health and the environment. During FY 2000 the Agency exceeded its target for Superfund constructions completed. (Goal 5)
- Through the third quarter of FY 2000 EPA’s Brownfields Program provided grants to communities and states, leveraging \$2.8 billion in cleanup and redevelopment funds, generating an estimated 7,400 jobs benefitting disadvantaged communities, and funding more than 2,000 site assessments of potentially contaminated sites. The Brownfields Program was named one of the ten winners of the “Innovations in Government Awards, 2000” granted by Harvard University’s John F. Kennedy School of Government, the Ford Foundation, and the Council for Excellence in Government. (Goal 5)
- Availability of water and sewer services in the U.S.-Mexican border area has significantly improved. Thirty-six projects certified by the Border Environment Cooperation Commission are under construction or have been completed. (Goal 6)
- Working in partnership with businesses, schools, state and local governments, and other

organizations, EPA is on track to meet its FY 2000 target for reducing greenhouse gas emissions from projected levels by more than 58 million metric tons of carbon equivalent. (Goal 6)

- Reductions in domestic use of ozone-depleting hydrochlorofluorocarbons and domestic production and import of newly produced chlorofluorocarbons and halons are on track to meet targets set by the Clean Air Act Amendments for FY 2000. (Goal 6)
- EPA demonstrated a mid-size-chassis research vehicle that achieved 72 miles per gallon (gasoline equivalent) using a state-of-the-art diesel engine and a patented, EPA-invented hybrid drivetrain. (Goal 8)
- The Mid-Atlantic Integrated Assessment successfully demonstrated the monitoring designs and indicators developed from EPA’s Ecological Research Strategy, resulting in the first statistically valid assessments of regional environmental conditions. (Goal 8)
- Enforcement actions brought by EPA reduced or prevented the emission and discharge of 334 million pounds of pollutants and required treatment of an additional 1.3 billion pounds of contaminated soils, sediments, or water; 61 percent of these enforcement actions required facilities to improve environmental management practices, which will reduce the likelihood of future violations. EPA’s enforcement augments the efforts of states and tribes. Nationally states conduct the large majority of all federally related inspections and formal enforcement actions. (Goal 9)
- During FY 2000 an additional 430 companies made use of EPA’s audit and self-disclosure policies, disclosing and correcting violations at 2,200 facilities. (Goal 9)
- EPA drafted its first strategic plan for investing in human resources, “Strategy for Human Capital,” to focus management attention on human resource issues facing the Agency. (Goal 10)

Accomplishments Across Goals and Programs

- The Office of Children’s Health Protection developed the *Children’s Health Valuation Handbook* to assist Agency economists in addressing children’s health risks when they conduct cost-benefit analyses of regulatory options.

- EPA joined the Department of Housing and Urban Development, the Department of Health and Human Services, and other federal departments and agencies in an interagency strategy to eliminate childhood lead poisoning as a major public health problem by 2010.
- Two hundred twenty-eight facilities became charter members of the new National Environmental Performance Track Program, created to motivate and reward performance that exceeds federal environmental requirements.
- EPA expanded regulatory flexibility under Project XL (eXcellence and Leadership) to identify areas for improving federal environmental programs and policies and approved an additional 35 proposals, bringing the total number of projects being implemented to 50.
- To advance “smart growth” in communities, EPA provided funding, research, and technical assistance, as well as support for a national information sharing network.
- EPA created new web sites to expand public access to information about environmental permitting reforms and participation in EPA’s voluntary partnership programs.
- In spring 2000 the Interagency Working Group on Environmental Justice released the *Integrated Federal Interagency Environmental Justice Action Agenda* to ensure that coordinated federal initiatives and resources are targeted to environmentally and economically distressed communities.
- EPA’s National Environmental Justice Advisory Council published *Environmental Justice in the Permitting Process*. The first in a series, this report identifies essential factors to be considered in siting new pollution-generating facilities to ensure protection of all citizens.

FY 2000 Performance Issues

Despite their best efforts, EPA and its partners were not able to meet all planned targets for FY 2000 APGs. In most cases the Agency does not expect the shortfall in meeting these APGs to compromise progress toward achieving the long-range goals and objectives.

For example, EPA changed the focus of underground storage tank compliance from simply having the required equipment to operating that

equipment properly. As a result, states’ reporting of compliance rates based on operational compliance led to a lower overall compliance figure but a better measure of environmental progress. In another case an extension of the public comment period delayed completion of the Exposure Factors Handbook, designed to provide guidance for assessing risks to children exposed to environmental contaminants, but permitted increased public involvement. Similarly, although EPA fell well short of its target for reassessing pesticide tolerances, the Agency made progress in developing a scientific approach to assessing cumulative risk which involved considerable stakeholder input and scientific peer review. Once implemented this approach will expedite Agency efforts to reassess pesticide tolerances.

In all EPA and its partners did not meet 13 of the 73 FY 2000 APGs. These APGs are associated with seven of EPA’s ten strategic goals. The results tables included in Section II provide more complete information and show that the Agency made significant progress toward these goals.

Strengthening Program Integrity Through Improved Management

Over the past decade EPA made substantial progress toward resolving programmatic and administrative issues that had the potential to affect the Agency’s ability to achieve its mission. One of the most significant accomplishments is the progress the Agency has made in addressing General Accounting Office (GAO) concerns regarding the Superfund program. In FY 1990 GAO designated Superfund a high-risk area, citing recurring management problems that heightened the risk of fraud, waste, abuse, and mismanagement. After 10 years, in its January 2001 report, *High-Risk Series: An Update*, GAO removed the Superfund program from the high-risk list, indicating that EPA had made significant progress in addressing this long-standing management challenge and demonstrated a continuing commitment to these efforts.

Over the next several years EPA faces a number of management challenges, including two that the GAO January 2001 high-risk update identified as government-wide high-risk areas. The first issue, strategic human capital management, is characterized by what GAO regards as inadequate efforts to meet current and emerging needs in the areas of human capital planning, recruitment, and development. The second issue, information security, was first designated a government-

wide high risk area in FY 1997. Despite federal agencies' ongoing efforts to correct security deficiencies, GAO believes that critical government operations and assets continue to be vulnerable.

In its January 2001 report, *Major Management Challenges and Program Risks: Environmental Protection Agency*, GAO identified two additional management challenges specific to EPA: (1) improving environmental and performance information to set priorities and measure results and (2) strengthening EPA's working relationships with the states. EPA's Office of Inspector General (OIG) shares GAO concerns regarding both the high-risk issues and the management challenges. Section II, "GPRA Performance Results," specifically goal chapters 7 and 10, and Section III, "Management Accomplishments and Challenges," present a further discussion of these issues.

EPA's OIG provides Congress with an annual list of EPA's key management challenges based on OIG audits and also identifies candidate weaknesses for consideration during the Agency's annual assessment of management controls under the Federal Managers Financial Integrity Act. Section III includes OIG's statement on the Agency's most serious management and performance challenges and its assessment of Agency progress. OIG identified several additional areas it believes EPA should address in a timely manner to ensure the Agency can accomplish its environmental mission and achieve effective management. These issues include accountability, managerial cost accounting, quality of laboratory data, EPA's use of assistance agreements to accomplish its mission, the backlog of National Pollutant Discharge Elimination System Permits, and results-based information technology project management. Goal chapters 2, 7, and 10 in Section II and Section III provide further discussion of these issues.

Recognizing that one of the most critical challenges facing government today is preserving the public's trust in the integrity of government programs, EPA places a high priority on addressing GAO and OIG issues as well as issues identified by the Office of Management and Budget (OMB) and through internal Agency reviews and assessments. Section III contains a full discussion of the Agency's material weaknesses and major management challenges and provides a summary of corrective action strategies under way to resolve the issues. In addition to goal chapters 2, 7, and 10 identified above, goal chapters 5, 6, and 9 discuss Agency efforts to address major

management challenges that may affect the achievement of EPA's goals and objectives.

ADVANCING EPA'S WORK

Strengthening State and Tribal Partnerships

Many of the advances in environmental protection made over the past year, highlighted in the list of accomplishments above and reflected in the chapters that follow, would not have been possible without the participation and support of the states. EPA and the states consulted extensively throughout the development of EPA's revised Strategic Plan, which was issued in September 2000, and the Agency worked closely with members of the Environmental Council of the States (ECOS) to facilitate state input on the goals, objectives, and text of the Plan.

During FY 2000 EPA and the states continued to strengthen their partnership to protect human health and the environment through the National Environmental Performance Partnership System (NEPPS). Under NEPPS EPA and states work together closely on all aspects of planning, priority-setting, and results-based management, including performance measurement, through the use of core performance measures (CPMs) to evaluate progress toward mutual program goals. CPMs are a limited number of program performance measures developed by EPA and ECOS to present a meaningful picture of each state's environmental quality and program effectiveness. CPMs are closely aligned with EPA's GPRA measures and similarly contain a mix of environmental indicator, outcome, and output measures. (Those CPMs associated with the Agency's APGs are noted in the tables for goal chapters 1, 2, and 5 in Section II of this report.) Thirty-four states and their EPA regional offices documented their partnership efforts with Performance Partnership Agreements.

In March 2000 EPA formally reaffirmed its commitment to the NEPPS principles of flexibility, innovation, and partnership. To demonstrate this commitment EPA designated leaders from each region and national program office to provide a broad, Agency-wide perspective on how EPA and states can improve all aspects of NEPPS. EPA also finalized new grant regulations that lay the groundwork for negotiation of Performance Partnership Grants (PPGs). PPGs enable states as well as tribes to use grant funds flexibly to meet their specific environmental needs.

EPA has been working closely with State Environmental Commissioners to determine how EPA might better incorporate state priorities into EPA's planning and budgeting work and improve the Agency's understanding of the particular environmental challenges facing each state. In spring 2000 EPA Regional Administrators were asked to discuss state priorities with the Commissioners so that this information could inform the Agency's planning and budgeting work. EPA is now working with ECOS to develop an ongoing process to facilitate the receipt and consideration of state input into national priority-setting processes.

Over the past 10 years GAO has worked with EPA and the states to identify areas of concern, make recommendations, and track Agency progress in resolving the long-standing challenges associated with the EPA-state relationship. GAO concerns have centered around some fundamental disagreements between EPA and the states over respective roles, priorities among state environmental programs, and the appropriate degree of federal oversight. GAO believes EPA has taken positive steps in some areas that have improved cooperation with the states, resulting in more effective and efficient environmental protection.

EPA has also worked closely with tribal governments to identify priorities for Indian country, to improve management of environmental issues, and to develop tribal capacity to implement environmental programs. EPA's Indian Program involves significant cross-Agency and multimedia activities designed to ensure that our trust responsibility to federally recognized tribes is carried out. The Agency is committed to assuring protection of the environment and human health in Indian country in a manner that is consistent with the government-to-government relationship and that conserves cultural use of natural resources. The new PPG regulations mentioned above will expand the benefits of NEPPS, enabling tribes as well as states to use grant funds flexibly to meet their specific environmental needs. During FY 2000 EPA and tribes also made major advances toward strengthening their government-to-government relationship. For example EPA sponsored the 5th National Tribal Annual Conference on Environmental Management in Lincoln City, Oregon. The meeting brought tribes from across the nation together with a number of federal agencies to address a wide range of environmental issues. The growing partnership between tribes and EPA was further demonstrated this year through the Agency's

enhanced and extensive consultation with tribes on water quality standards in Indian country.

EPA has also worked with tribes to address a number of cross-media concerns. For example the Agency initiated training for tribal enforcement officials interested in obtaining or enhancing their federal inspection credentials. The development of accredited staff expands the Agency's ability to address priority issues. In addition FY 2000 saw the creation of the first Tribal Science Council as part of EPA's Science Advisory Board. This new collaborative body will enable tribes and EPA more effectively to address long-standing issues in Indian country, such as the need to further the science surrounding subsistence fishing and other exposure pathways.

Improving Results-Based Management

In FY 2000 EPA completed its first full planning and accountability cycle under GPRA with the March 2000 submission of its first Annual Performance Report, presenting the results of EPA's FY 1999 performance to Congress and the public. In a series of ten goal meetings, senior Agency managers met with the Deputy Administrator to discuss the FY 1999 results and the lessons they prompted, mid-year performance toward FY 2000 APGs, progress toward long-term strategic goals, and work under way to improve performance measurement. In addition senior managers discussed the broader lessons learned from the Agency's experience with GPRA implementation to date and improvements to be made for the future. The discussion revealed that GPRA has had a positive impact on the culture of the Agency, specifically in helping managers to define success and the results of EPA's work. The focus on priority-setting and results has helped the Agency relate resources to accomplishments, find new ways to meet goals despite resource reductions, and address important data issues and the Agency's ability to measure results.

To further improvements in EPA's performance measurement, the Agency formed a performance measurement improvement team that conducted workshops with program offices to promote development of more outcome-oriented goals and measures. EPA applied many of the lessons learned from this effort in developing the framework for its revised Strategic Plan, which was issued in September 2000. The Agency is committed to developing APGs and performance measures that focus on outcomes;

linking performance with resources more closely; using information generated through planning, budgeting, analysis, and accountability activities to inform management decisions; and communicating the results of its efforts clearly to Congress and the public.

Developing Program Evaluation Capabilities

While performance measurement generally describes what a program achieved—outputs or outcomes—during a given period, program evaluation can help explain these results. Program evaluation identifies areas needing improvement, better strategies for achieving established goals, and ways to improve data collection or measurement of program results. Performance measurement alone cannot always answer these questions.

To further improve its ability to assess progress, EPA has taken steps over the past year to increase the number and improve the quality of program evaluation activities within the Agency. EPA's OIG has reorganized and created an Office of Program Evaluation to conduct evaluations of EPA's programs. During FY 2000 EPA's Program Evaluation Network—comprising EPA managers and staff with expertise in and responsibilities for program evaluation—continued to meet and to share information. In spring 2000 EPA presented two 1-day training sessions focusing on the fundamentals of program evaluation. The 77 headquarters and regional staff who participated in the training will continue to help build EPA's ability to conduct evaluations, improving the Agency's ability to assess progress toward its environmental goals. In FY 2000 the Agency also solicited program and regional office proposals for limited central funding of program evaluations. Four studies were selected for funding, including the Assessment of the Water Quality Standards process conducted under Goal 2.

DATA QUALITY

EPA's FY 2000 performance data can be characterized as acceptably reliable and complete. In terms of data reliability, a significant number of APGs are Agency counts of administrative or programmatic outputs and are not subject to wide margins of error. In cases where counts involve major EPA data systems, however, the data are subject to Agency-wide data quality standards and periodically audited for accuracy and completeness. The Resource Conservation and Recovery

Act Information System (RCRAInfo), for example, adjusted the baseline number of facilities in the database after receiving new data from authorized states, thereby improving the reliability of the reported performance data. Performance data for several APGs are obtained by voluntary reporting, modeling, or extrapolating. The degree to which the quality of the data is affected by these data gathering techniques has not been quantified in most cases, although the reliability of the data can be estimated at least qualitatively. States and other external sources provide much of the data EPA uses to develop its performance data. For the more significant EPA databases, protocols are in place to check the data for errors. To a large degree, however, EPA must rely on the quality assurance/quality controls in place at the primary data source to ensure data accuracy.

Three EPA databases have been identified as Agency management weaknesses in FY 2000. These are the Permit Compliance System, RCRAInfo, and the Safe Drinking Water Information System. The Agency is implementing specific corrective action strategies for each of these databases and has established milestones for data quality improvements. As a result the quality of the performance data from these databases can be expected to improve significantly in the future.

EPA has taken several important steps to improve its data quality management. The Agency recently reorganized its information management activities into one office. It has adopted six new data standards to promote consistency in reporting and data integration. In addition the Agency is implementing a Central Data Exchange—a single portal for states and the regulated community reporting environmental information to EPA. These steps will help to improve the efficiency and reliability of EPA's data as well as detect and correct errors. In addition, with the goal of significantly improving data quality, EPA is allowing greater public access to Agency data, including enforcement and compliance information.

All of the Agency's 73 FY 2000 APGs are accounted for in the tables of results presented in each goal chapter in Section II. (These 73 APGs were first reported in the FY 2000 Final Annual Plan. They have since been revised to reflect final budget decisions and FY 1999 performance and presented in EPA's FY 2001 budget justification to Congress.) In the case of APGs for which performance data are not yet available, the

tables indicate when the Agency will have the data necessary to report performance.

FINANCIAL ANALYSIS

EPA's Financial Statements

EPA's financial statements reflect the range of the Agency's financial activities over the course of a fiscal year and present a snapshot of its financial position at the end of that fiscal year. They are the culmination of many thousands of transactions and financial records, and on their accuracy and reliability EPA bases its assurance to the public that the Agency manages resources efficiently, effectively, and productively. EPA's OIG performs an annual audit of the full set of financial statements to determine whether the picture they present is a fair and accurate one, based on generally accepted accounting principles. When an agency's financial statements receive an unqualified or "clean" opinion from the auditors, this signals to the public the auditors' reasonable assurance of the agency's fiscal health at year's end. When auditors are unable to make a full assessment of financial statements because there are elements they cannot evaluate, they will render a qualified audit opinion. In such a case, auditors report that the statements represent an agency's financial circumstances fairly with the exception of individual elements that cannot be assessed. When auditors are unable to render an opinion on a set of financial statements because they are unable to make any kind of evaluation, they typically issue a disclaimer.

The auditors' annual check on financial management is fundamental to good management, and EPA recognizes it as an important indicator of the Agency's ability to account for taxpayer dollars and manage for results. EPA also values the resource information summarized in its financial statements as a basis for cost-benefit and trends analyses concerning the environmental results envisioned in EPA's strategic goals. For these reasons, no annual report of EPA's accomplishments would be complete without the inclusion of audited financial statements or some equivalent.

In response to process control concerns raised in the audit of EPA's FY 1999 financial statements, the Office of the Chief Financial Officer has worked closely with OIG to strengthen Agency financial management processes and financial statement preparation. EPA has analyzed in greater detail than ever before every element

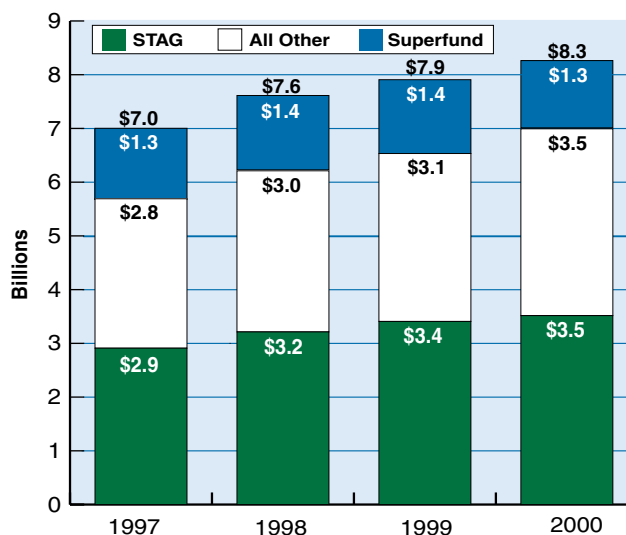
of its financial statements. EPA also framed new policies and instituted new procedures, improved quality control across the entire range of the financial statements, made selective use of automation in new areas, adopted new methodologies, and strengthened information security. EPA is pleased to report that this collaboration has enabled the Agency to achieve a "clean" audit opinion on its FY 2000 financial statements.

Budget Authority for FY 1997–FY 2000

Budget authority is the authority provided by law to incur financial obligations, such as awarding contracts or grants. For FY 2000 EPA received a total of \$8.3 billion in budget authority. The "Budget Authority by Fiscal Year" chart provides a comparison of EPA's total budget authority for FY 1997 through FY 2000.

OMB issues EPA's budget authority in many accounts, consistent with appropriation law. The "Budget Authority" chart depicts the Superfund and State and Tribal Assistance Grants (STAG) accounts and characterizes other major accounts—such as the Environmental Programs and Management account and the Science and Technology account—under "All

Budget Authority by Fiscal Year



Other.” The Superfund category is a net amount in that it reflects transfers of Superfund authority to other accounts as directed by Congress.

FY 2000 Obligations

An obligation is a legal responsibility on the part of the government to make a disbursement at a later date. For example an obligation is recognized when the

FY 2000 OBLIGATIONS BY GOAL (Dollars in Millions)													
Appropriation	Goal 1	Goal 2	Goal 3	Goal 4	Goal 5	Goal 6	Goal 7	Goal 8	Goal 9	Goal 10	Reim.	Other	Total Approp.
STAG	203	3098	0	94	64	52	0	0	71	0	0	0	3582
All Other	340	526	75	177	296	178	139	261	285	381	270	0	2928
Superfund	0	0	0	0	1563	0	3	3	15	57	123	700	2464
TOTAL	543	3624	75	271	1923	230	142	264	371	438	393	700	8974
Approp. = Appropriation Reim. = Reimbursable													
STAG = State and Tribal Assistance Grants Other = Payment from general revenues to the Hazardous Substance Superfund													

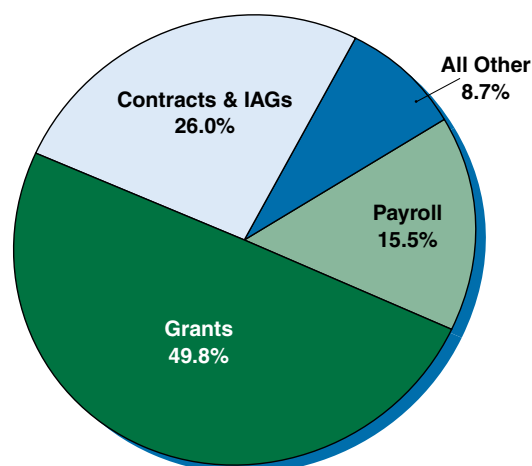
government awards a contract. The actual costs associated with the contract are recognized when the contractor delivers the requested goods or services.

The “FY 2000 Obligations by Goal” table presents data for each goal by appropriation. Obligations in this table are not the same as “costs,” which are reported in Section IV under the Statement of Net Costs. Obligation totals in this table also differ from Agency financial statements because the obligation totals include EPA’s Superfund transfer to other federal agencies. Each of the goal chapters that follow in Section II presents the total obligations for that goal in comparison to Agency’s total obligations for FY 2000.

FY 2000 Expenses

Expenses are EPA’s costs for services rendered or activities performed. In FY 2000 EPA spent \$7.9 billion using current and prior year appropriation authority. Of this amount 75.8 percent was spent on contracts,

FY 2000 EPA Expenses

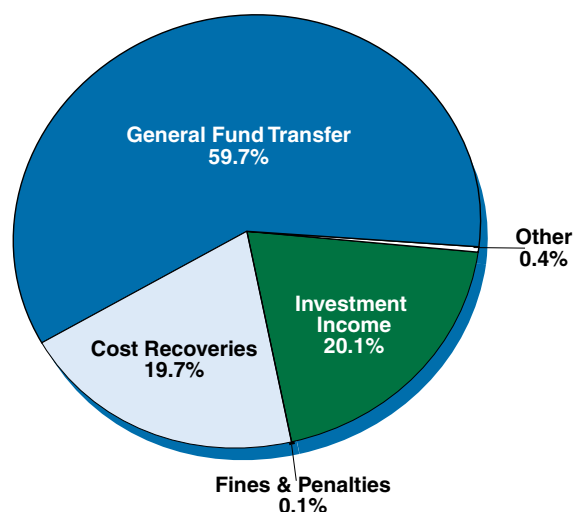


inter-agency agreements (IAGs), and grants. FY 2000 expenses are also displayed by strategic goal in the Statement of Net Costs in Section IV.

Superfund Financial Trends

The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), enacted in 1980, formally established the Superfund Program and the Hazardous Substance Response Trust Fund, now known as the Hazardous Substance Superfund (Trust Fund). Although CERCLA has not been

**FY 2000 Superfund Trust Fund
Revenue Sources**



reauthorized since 1995, the Superfund Program continues to operate each year by way of annual Congressional appropriations from general fund transfer.

The Trust Fund, administered by the Bureau of Public Debt, U.S. Department of the Treasury (Treasury), is the primary financing source for the Superfund Program. For FY 2000 Treasury reports that the Trust Fund received approximately \$1.2 billion in receipts from the revenue sources shown in the accompanying chart.

The Superfund Program's authority to tax expired on December 31, 1995. Consequently the major revenue sources for the Trust Fund are cost recoveries; interest, fines, and penalties; income from Trust Fund investments; and general fund transfer. Due to diminishing revenues EPA has increased its efforts to conserve existing Trust Fund balances and replenish the Trust Fund with all eligible revenues. To accomplish these goals EPA has:

- Revised the indirect cost rate methodology for Superfund cost recovery to reflect the full costs of Superfund cleanup.
- Recovered \$230.4 million during FY 2000 as a result of accelerated efforts to pursue collection of cost recovery settlements and judgments.
- Reemphasized its "enforcement first" philosophy to compel Potentially Responsible Parties (PRPs) to clean up contaminated sites. By having PRPs perform cleanups, EPA can reduce related response and legal enforcement costs, resulting in cost savings to both taxpayers and the Trust Fund.

- With direction from Treasury, diversified the Trust Fund's investment portfolio and returned a higher rate of interest to the Trust Fund.

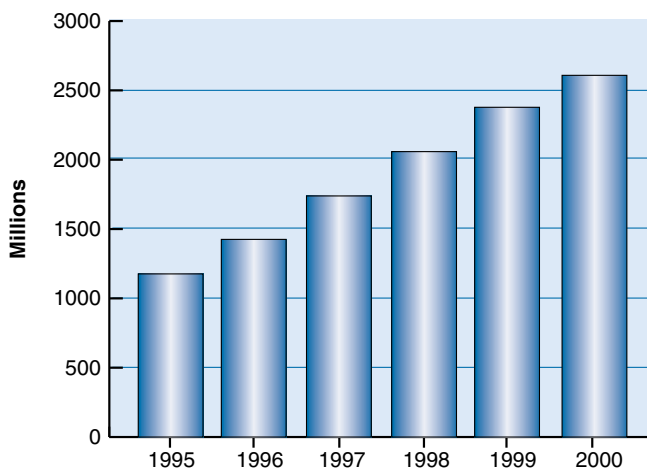
FUTURE TRENDS

A number of current trends will have implications for the future success of EPA's programs. Should climate-change-driven weather extremes such as more frequent hot, dry summers increase, attainment of air quality standards might be more difficult despite the full implementation of emission control plans. High temperatures and bright sunlight, for example, could increase the formation of ozone. Droughts and floods, also more likely to increase with a warmer climate, could significantly affect the success of the Agency's water and waste programs. Floodwaters could disrupt hazardous waste sites and spread animal and other wastes. Drought conditions could preclude reliance on dilution to improve water quality and thus threaten the nation's water supply. EPA and its partners have established some pollution control strategies predicated on fairly typical temperature and precipitation regimes; unfortunately, those control strategies might be less likely to succeed in the face of increased climate and weather extremes.

Population growth, along with the attendant development of suburban and exurban areas, also has implications for environmental protection programs. Sprawl increases demands on transportation and can result in more people relying more heavily on private vehicles. Increases in vehicle miles traveled, coupled with the trend toward larger vehicles such as sport utility vehicles, can contribute to increased emissions of conventional pollutants and greenhouse gases like carbon dioxide and might affect EPA's air program. Apart from adding to air quality concerns, population growth also places increased pressure on the nation's infrastructure for providing clean and safe water. This concern is becoming especially apparent as the U.S. population grows in the southern and southwestern states, which have fewer water resources and often less highly developed water and wastewater treatment infrastructures than other states.

In conjunction with the growth of the overall population, America's population is aging. This change will inevitably lead to new and unexpected patterns of

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consumption and, therefore, to new patterns of pollution. For example, greater use of medications and other biologically active substances might affect the environment.

The current trend of general economic growth and increased consumer demands will also affect the success of EPA's programs across all media. If domestic manufacturing and production rise, waste streams might continue to change and require responses from EPA solid and hazardous waste programs. In the absence of cleaner processes and better controls, air and water emissions would tend to increase in response to this growth. Larger homes increase energy demands and can lead to growth in greenhouse gas emissions. Changes in producer and consumer behavior are also likely to influence the Agency's ability to achieve its objectives, for example, in the area of food safety.

Several technology changes might have significant impacts, both positive and negative, on the environment. Development and adoption of clean technology, such as hydrogen fuel cells, could reduce energy consumption and greenhouse gas emissions. Biotechnology, including the development of genetically modified organisms, might yield crops that can thrive without the use of fertilizers and pesticides. However, researchers continue to investigate the interaction of genetic engineering and other technologies with environmental factors. EPA's pesticide and industrial chemical programs may need to respond to advances in biotechnology.

The Internet and information technology are transforming public sector processes and the ways that agencies interact with their constituents and relate to one another. Government agencies at all levels are using technology to be more accessible, efficient, and responsive to their constituents. Prompted by the expectations of a citizenry that is growing accustomed to conducting business online, businesses seeking to reduce costs in a technology-driven marketplace, and Congressional efforts to reduce reporting burden, agencies are using the Internet and information technology to streamline processes, improve services, and integrate information. As e-commerce becomes fully entrenched in the everyday lives of the public, EPA will need to deliver customer services that will require integration across multiple departments and levels of government.

Clearly these and other social, economic, and technological trends and developments will influence the Agency's ability to achieve its goals and objectives.

LOOKING AHEAD

EPA learned from its FY 1999 experience—through both the work it accomplished and the challenges it faced—and has made significant progress during FY 2000 in applying the principles of results-based management. The Agency advanced its efforts to set quantifiable, attainable goals and targets; to forecast external factors that might have an impact on program planning; to measure performance results more precisely; and to analyze more accurately the relationships among costs, activities, and results.

In setting future goals and targets EPA will focus on delivering environmental and human health outcomes and developing meaningful performance measures where possible. The Agency will strive to develop APGs that reflect progress made toward meeting long-term goals and that are more closely linked to environmental outcomes. For example APGs currently in place under the air pollution control program for ozone, particulate matter, and other pollutants enable EPA and states to measure actual improvements in air quality, rather than progress in program activities such as permits issued. EPA is making similar progress in the area of compliance and enforcement. For example during FY 2000 EPA established a baseline to measure the average length of time it takes for significant violators to return to compliance or enter into enforceable plans and agreements. Building on this effort, in FY 2001 the Agency will be able to assess its progress in decreasing the percentage of facilities that remain in significant noncompliance after 2 years.

As part of its performance assessment improvement effort, the Agency will continue to work with states to improve the CPMs that have been negotiated through NEPPS, both to realize improvements in its ability to measure outcomes and to maintain the close alignment of NEPPS and GPRA performance measures. EPA and states are particularly committed to increasing significantly the ratio of environmental outcome to output CPMs.

To measure environmental improvements and assess progress accurately, EPA and its partners need quality environmental information and the analytical tools to understand it. The Agency is working to ensure that it keeps pace with the rapid advances in information technology and can meet the growing demand for reliable environmental information. EPA is developing an Information Plan that assesses the Agency's environmental direction, establishes a framework for identifying and addressing information needs, and matches information and technology resources to those needs. In addition the Plan will establish processes for addressing data needs and identify potential data collection efficiencies and opportunities to leverage information resources. These initiatives will also support EPA's efforts to improve its trend data, so that the Agency may better assess progress toward long-term goals and provide a context for assessing annual results.

Collaboration with the Agency's federal, state, and tribal partners and with interested stakeholders will be critical to the success of these efforts. EPA will continue to depend on strong, effective partnerships to ensure progress toward the Agency's goals for protection of the environment and human health.

The chapters that follow in Section II present EPA's FY 2000 progress toward each of the Agency's ten long-term goals. Each chapter discusses the Agency's accomplishments, research contributions, and program evaluations, as well as the impact of FY 2000 results on the FY 2001 Annual Plan. As appropriate, chapters also discuss the Agency's progress in addressing significant management problems. Tables provided at the end of each chapter present information on the APGs that support each long-term goal. The chapters and tables together help to describe the results EPA and its federal, state, tribal, and local agency partners achieved during FY 2000 and to explain how these results will shape the Agency's future planning and performance.